

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of DeWitt - Downtown Dev. Authority	County Clinton
Fiscal Year End 6/30/07	Opinion Date 10/24/07	Date Audit Report Submitted to State 11/6/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

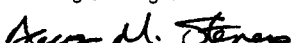
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	License Number 1101024055

City of DeWitt

**Downtown Development Authority
Clinton County, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

City of DeWitt
Downtown Development Authority
Clinton County, Michigan
June 30, 2007
BOARD OF DIRECTORS

Dan Peckham	Chairman
Ray Knick	Vice-Chairman
Fred Motz	Treasurer
Paul Hughes	Secretary
Paul Hartlieb	Director
Beth Herendeen	Director
Leanne Roman	Director
Linda Hundt	Director
Jim Rundborg	Director

City of DeWitt
Downtown Development Authority

TABLE OF CONTENTS

June 30, 2007

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii-iii
BASIC FINANCIAL STATEMENTS	
Governmental Fund Balance Sheet/Statement of Net Assets	1
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities	2
Notes to Financial Statements	3-6
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Special Revenue Fund	7

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Board of Directors
City of DeWitt Downtown
Development Authority
DeWitt, Michigan

We have audited the component unit financial statements of the governmental activities and the major fund of the City of DeWitt Downtown Development Authority as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the City of DeWitt Downtown Development Authority as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 24, 2007

**City of DeWitt, Michigan
Downtown Development Authority**

**Management's Discussion and Analysis
June 30, 2007**

The City of DeWitt Downtown Development Authority (the DDA) is in its fourth year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The intent of this standard is to provide citizens, taxpayers, customers, and investors with a better understanding of how the DDA's money and other assets are managed.

This discussion and analysis of financial performance provides a comparison overview of the DDA's financial activities for FY 06-07 and 05-06. Please read this document in conjunction with the DDA's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for FY 06-07:

- Assets of the DDA exceeded its liabilities at the close of FY 06-07 by \$162,155.
- The DDA's total net assets increased by \$57,271 as a result of current year activity.

Using this Annual Report

This annual report consists of several financial statements. The statement of net assets and the statement of activities provide information about the activities of the DDA as a whole and present a longer-term view of the DDA's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view which reveals how resources were spent during the year and what resources are available for future spending. Fund financial statements also report the operations of the DDA in more detail than the government-wide financial statements by providing information about the DDA's most significant fund.

The DDA as a Whole

The following table shows, in condensed format, a comparison of net assets of the DDA as of June 30, 2007 and June 30, 2006.

	<u>06-07</u>	<u>05-06</u>
Assets		
Current assets	\$ 167,384	\$ 104,884
Liabilities		
Current liabilities	<u>5,229</u>	<u>-</u>
Net Assets		
Unrestricted	<u>\$ 162,155</u>	<u>\$ 104,884</u>

**City of DeWitt, Michigan
Downtown Development Authority**

**Management's Discussion and Analysis
June 30, 2007**

The following table shows the changes in net assets during the previous and current year.

	<u>06-07</u>	<u>05-06</u>
Revenue		
General revenue:		
Taxes	\$ 91,989	\$ 88,048
Interest	6,800	3,744
Miscellaneous	<u>2,536</u>	<u>38,579</u>
Total revenue	101,325	130,371
Program Expenses		
Contractual Services	14,436	20,139
Advertising & Promotion	16,121	6,625
Audit	850	800
Operating expenses	12,457	16,837
Office supplies	160	985
Other	30	100
Improvements	<u>-</u>	<u>105,506</u>
Total expenses	<u>44,054</u>	<u>150,992</u>
Change in Net Assets	<u><u>\$ 57,271</u></u>	<u><u>\$ (20,621)</u></u>

Governmental Activities

The DDA governmental revenues totaled \$101,325 with the largest revenue source being property taxes. Property taxes make up approximately 91% of the total governmental revenue.

The DDA incurred expenses of \$44,054 during the fiscal year, the two largest expenses being Advertising and Promotion (\$16,121) and contractual services (\$14,436). Advertising and Promotion represent approximately 37% and contractual services represent approximately 33% of the annual expenditures.

Capital Asset Administration

The DDA does not own or maintain any capital assets.

Long-Term Debt

The DDA does not have any long-term debt.

Contacting the DDA

This financial report is intended to provide citizens, taxpayers, customers, and investors with the general overview of the DDA's finances and demonstrate the DDA's accountability for the money it receives. If you have any questions about this report or need any additional information, we welcome you to contact the City of DeWitt, 414 East Main Street, DeWitt, MI 48820.

BASIC FINANCIAL STATEMENTS

City of DeWitt
Downtown Development Authority

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS

June 30, 2007

	Special Revenue Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash	\$ 79,219	\$ -	\$ 79,219
Investments	<u>88,165</u>	<u>-</u>	<u>88,165</u>
TOTAL ASSETS	<u><u>\$ 167,384</u></u>	-0-	167,384
LIABILITIES			
Accounts payable	\$ 5,229	-	<u>5,229</u>
FUND BALANCE/NET ASSETS			
Fund balance			
Unreserved - undesignated	<u>162,155</u>	(162,155)	-0-
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 167,384</u></u>	<u>-</u>	<u>-0-</u>
NET ASSETS			
Unrestricted		<u><u>\$ 162,155</u></u>	<u><u>\$ 162,155</u></u>

See accompanying notes to financial statements.

City of DeWitt
Downtown Development Authority

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE/STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

	Special Revenue Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Current			
Contractual services	\$ 14,436	\$ -	\$ 14,436
Advertising and promotion	16,121	-	16,121
Audit	850	-	850
Operating expenses	12,457	-	12,457
Supplies	160	-	160
Other	30	-	30
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES/EXPENSES	44,054	-0-	44,054
PROGRAM REVENUES	<hr/>	<hr/>	<hr/>
	-	-	-
NET PROGRAM EXPENSE	(44,054)	-0-	(44,054)
GENERAL REVENUES			
Property taxes	91,989	-	91,989
Interest	6,800	-	6,800
Other	2,536	-	2,536
	<hr/>	<hr/>	<hr/>
TOTAL GENERAL REVENUES	101,325	-0-	101,325
NET CHANGE IN FUND BALANCE	57,271	(57,271)	-0-
CHANGE IN NET ASSETS	-	57,271	57,271
Fund balance/Net assets			
Beginning of year	<hr/>	<hr/>	<hr/>
	104,884	-	104,884
End of year	<hr/>	<hr/>	<hr/>
	\$ 162,155	\$ -0-	\$ 162,155

See accompanying notes to financial statements.

City of DeWitt
Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of DeWitt Downtown Development Authority was created on May 7, 1981, pursuant to Act 197 of the Public Acts of Michigan, 1975 as amended. The Authority has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the City of DeWitt ordinance establishing the Authority.

The primary revenue of the City of DeWitt Downtown Development Authority is "tax increment revenue". The taxing units are required by law to transmit to the Authority that portion of the tax levy of all taxing bodies paid each year on the captured assessed value of all real and personal property located in the development area. The "captured assessed value" is basically defined as the amount in any one year by which the current assessed value of the project area exceeds the initial assessed value.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements are exclusive presentations of the financial condition and results of operations of the City of DeWitt Downtown Development Authority. The Authority is considered a component unit of the City of DeWitt, Michigan and is discretely presented in the City of DeWitt's (the Primary Government) financial statements. A copy of the City's audited financial statements may be obtained at the DeWitt City Hall.

2. Basis of Presentation and Measurement Focus

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Authority as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, adjustments are reflected on the face of the financial statements.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and property taxes and shows how governmental functions are either self-financing or supported by the general revenues of the Authority.

FUND FINANCIAL STATEMENTS

The Authority uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Authority's individual major fund.

The major fund of the Authority is:

Special Revenue Fund - The general operating fund is used to account for all financial resources of the Authority which are restricted to expenditures for downtown development purposes.

City of DeWitt
Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The annual budget of the Authority prepared by Authority management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year. The budget is prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America.

6. Cash, Cash Equivalents, and Investments

Cash consists of the Authority's checking and savings accounts. Cash equivalents consist of temporary investments in certificates of deposit with original maturities of 90 days or less.

Investments include certificates of deposit with original maturities of greater than 90 days from the date of purchase. All certificates of deposit are stated at cost, which approximates market value.

7. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

City of DeWitt
Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2007, the carrying amounts of the Authority's deposits were \$167,284 and the bank balance was \$169,417, of which \$169,417 was covered by federal depository insurance. The Authority had \$100 of imprest cash on hand.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Concentration of credit risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

City of DeWitt
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Custodial credit risk

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business in accordance with Board approved policy.

NOTE C: RISK MANGEMENT

The Authority, as a component unit of the City of DeWitt, is protected from losses as described in the note captioned "Risk Management" within the City's Annual Financial Report.

NOTE D: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedule included as required supplementary information to the basic financial statements, the Authority's budgeted expenditures in the Special Revenue Fund have been shown at the functional classification level. The approved budgets of the Authority have been adopted at the fund level for the Special Revenue Fund.

During the year ended June 30, 2007, the Authority incurred expenditures in the Special Revenue Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Special Revenue Fund	\$ 41,365	\$ 44,054	\$ 2,689

REQUIRED SUPPLEMENTARY INFORMATION

City of DeWitt
Downtown Development Authority

Special Revenue Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 90,000	\$ 91,989	\$ 91,989	\$ -0-
Interest and rent	3,500	7,400	6,800	(600)
Other	4,900	2,530	2,536	6
TOTAL REVENUES	98,400	101,919	101,325	(594)
EXPENDITURES				
Current				
Contractual services	22,500	15,000	14,436	564
Advertising and promotion	14,000	16,200	16,121	79
Audit	850	850	850	-0-
Operating expenses	14,600	9,235	12,457	(3,222)
Supplies	850	50	160	(110)
Improvements	70,000	-	-	-0-
Miscellaneous	350	30	30	-0-
TOTAL EXPENDITURES	123,150	41,365	44,054	(2,689)
NET CHANGE IN FUND BALANCE	(24,750)	60,554	57,271	(3,283)
Fund balance, beginning of year	104,884	104,884	104,884	-0-
Fund balance, end of year	<u>\$ 80,134</u>	<u>\$ 165,438</u>	<u>\$ 162,155</u>	<u>\$ (3,283)</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS**

To the Board of Directors
City of DeWitt Downtown Development Authority
DeWitt, Michigan

We have audited the financial statements of the governmental activities and each major fund of the City of DeWitt Downtown Development Authority as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Authority rests with the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at City of DeWitt Downtown Development Authority. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Authority's annual financial statements and notes to the financial statements in accordance with GAAP. The Authority relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Authority consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

We recommend that the Schools take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe that the significant deficiencies noted above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instances of noncompliance or other matters as described below.

BUDGETS

As noted in the financial statements, the Authority exceeded the amounts appropriated. Michigan Public Act 621 of 1978, as amended, provides that the Authority adopt formal budgets for all applicable funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Authority monitor expenditures against the adopted budget and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management, the members of the Board of Directors, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 24, 2007